

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 INR-10 PA-04 RSC-01 PRS-01 SPC-03 L-03

ACDA-19 OMB-01 TRSE-00 IO-14 EB-11 FAA-00 DOTE-00

DRC-01 /094 W

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O 111012Z JAN 74

FM USMISSION BERLIN

TO SECSTATE WASHDC IMMEDIATE 2817

INFO AMEMBASSY BONN IMMEDIATE

AMEMBASSY LONDON

AMEMBASSY PARIS

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EO 11652: N/A

TAGS: ETRN, WB, GW, US, UK, FR

SUBJECT: CIVAIR: PAN AM AND BEA PROPOSALS FOR RESCHEDULING AND  
INCREASED IGS FREQUENCIES

REF: A. STATE 3181 AND PREVIOUS

B. BECKER/BEAL TELCONS JANUARY 10

FROM CAA

1. SUMMARY: EMBASSY CAA HAS ARGUED AT LENGTH WITH  
BRITISH CAA IN SUPPORT OF PAN AM'S PROPOSALS, BUT THE  
UK POSITION REMAINS THAT BOTH THE PAN AM PROPOSAL AND  
THE BEA COUNTERPROPOSAL FOR INCREASES IN IGS FREQUENCIES  
SHOULD BE DISAPPROVED. FOLLOWING JANUARY 10 DISCUSSION,  
EMBASSY CAA POINTED OUT TO BRITISH CAA THAT, AS HAD  
HAPPENED IN THE PAST, HE MIGHT TELL PAN AM TO IMPLEMENT  
ITS PROPOSALS AS MANAGERIAL DECISION, BUT SAID UK  
VIEWS WOULD AGAIN BE PASSED TO THE DEPARTMENT. UK  
CAA SAID HE WOULD OBTAIN LONDON REACTION. PAN AM  
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HAS BEEN REQUESTED NOT CARRY OUT ITS RESCHEDULING

OR START ITS NEW FREQUENCIES UNTIL APPROVAL IS RECEIVED FROM THE EMBASSY. UK REACTION WILL BE REPORTED SOONEST.

2. AT A CAA MEETING ON JANUARY 8 AND AGAIN WITH UK CAA ON JANUARY 10, EMBASSY CAA URGED PROMPT APPROVAL OF PAN AM'S PROPOSED TWO ADDITIONAL IGS SERVICES AND RESCHEDULINGS. POINTS WERE STRESSED, A) THAT THIS WAS A MANAGERIAL DECISION WHICH SHOULD NOT BE DISPUTED BY CAA'S AS A LOGICAL COMPETITIVE REACTION TO BEA'S INCREASED SHARE OF THE IGS MARKED IN NOVEMBER AND DECEMBER, AND THAT, B) SUCH REACTION WAS NOT OUTSIDE THE QUOTE RATIONALIZATION UNQUOTE CONCEPT IN VIEW OF NOVEMBER STATISTICS WHICH SHOW PAN AM WITH 59.8 PERCENT AND BEA WITH 40.2 PERCENT SHARES OF THE MARKET. PRELIMINARY DECEMBER IGS FIGURES SHOW THE PAN AM SHARE AT 59.3 PERCENT AND BEA AT 40.7. TRADITIONAL SHARING OVER PAST YEARS HAS BEEN ROUGHLY TWO-THIRDS PAN AM AND ONE THIRD BEA.

3. CAA POINTED OUT THAT THE US WAS ALSO PREPARED TO APPROVE BEA'S COUNTERMOVE, WHICH WOULD PRESUMABLY GIVE BEA THE CHANCE TO MAINTAIN ITS CURRENT POSITION IN THE MARKET. BRITISH CAA REITERATED ON JANUARY 10 UK VIEWS PREVIOUSLY REPORTED THAT, A) IN A MARKET WHICH STILL APPEARS TO BE DECLINING, AND WITHIN THE RATIONALIZATION CONCEPT, FREQUENCIES SHOULD DECREASE RATHER THAN INCREASE, AND B) THAT THE APPROVAL OF ADDITIONAL FREQUENCIES WOULD TEND TO UNDERMINE THE CASE FOR THE IGS FARE INCREASE. THE FRG WOULD TEND TO THINK THAT IF THE CARRIERS WERE ADDING FREQUENCIES (AT CURRENT PASSENGER LOAD FACTORS OF AROUND 50-55 PERCENT) IGS OPERATIONS MIGHT BE PROFITABLE WITHOUT A FARE INCREASE. COMMENT: THIS DOES NOT APPEAR A COMPELLING ARGUMENT, AS THE CAA TOLD THE BRITISH, BECAUSE THE CASE FOR HIGHER IGS FARES IS BASED ON INCREASED COSTS AFFECTING ALL SERVICES.

4. TO ASCERTAIN WHETHER THERE MIGHT BE SOME MIDDLE GROUND IN FREQUENCY CHANGES AND RESCHEDULING WHICH WOULD MEET PAN AM'S OBJECTIVES AND STILL BE PALATABLE TO LIMITED OFFICIAL USE

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THE UK, EMBASSY CAA AND UK CAA RESPECTIVELY EXPLORED THIS POSSIBILITY INFORMALLY WITH PAN AM AND BEA DIRECTORS ON JANUARY 10. THIS EFFORT WAS UNSUCCESSFUL, HOWEVER.

5. EMBASSY CAA AT THE END OF HIS MEETING WITH THE BRITISH CAA TOLD HIM THAT HE INTENDED TO AUTHORIZE PAN AM TO IMPLEMENT ITS PROPOSED CHANGES AS A MANAGERIAL DECISION. HE WOULD, HOWEVER, BE IN TOUCH WITH THE

DEPARTMENT. BRITISH CAA SAID HE WOULD SEEK INSTRUCTIONS FROM LONDON AS SOON AS POSSIBLE, BUT HE DOUBTED THAT THIS WOULD BE UNTIL JANUARY 11. HE AGREED TO INFORM EMB CAA OF LONDON'S REACTION, WHICH WILL BE REPORTED TO THE DEPARTMENT IMMEDIATELY ON RECEIPT.

6. FOLLOWING SUBSEQUENT BECKER/BEAL TELCON, CAA REMINDED PAN AM MANAGER RUNETTE THAT PAN AM DID NOT HAVE FORMAL APPROVAL TO CARRY OUT ITS PROPOSED CHANGES AND REQUESTED HIM NOT GO FORWARD WITH THEM UNTIL FURTHER NOTICE. NEEDLESS TO SAY, PAN AM IS MOST ANXIOUS TO HAVE A PROMPT DECISION SOONEST ONE WAY OR THE OTHER.

7. COMMENT: ALTHOUGH PAN AM'S REACTION TO AN APPARENTLY SLIGHT SHIFT IN MARKET SHARES WAS HASTY, EMBASSY CAA FINDS PAN AM'S ARGUMENTS FOR A COMPETITIVE REACTION TO BEA'S ADVANCE IN THE IGS MARKET CONVINCING, AS DID THE DEPARTMENT. IF THE SITUATION WERE REVERSED, THAT IS, IF PAN AM WERE TO CAPTURE OVER 65 PERCENT OF THE IGS MARKET, WE COULD BE CERTAIN OF A SIMILAR BEA REACTION, WITH UK SUPPORT.KLEIN

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